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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

MIKE GLEASON, Chairman  
WILLIAM A. MUNDELL  
JEFF HATCH-MILLER  
KRISTIN K. MAYES  
GARY PIERCE

IN THE MATTER OF THE APPLICATION OF )  
GRAHAM COUNTY ELECTRIC COOPERATIVE )  
INC. FOR A DETERMINATION OF THE FAIR )  
VALUE OF ITS PROPERTY AND FOR AN )  
ORDER SETTING JUST AND REASONABLE )  
RATES )

DOCKET NO. E-01749A-07-0236

**REBUTTAL TESTIMONY**

Graham County Electric Cooperative, Inc. ("GCEC") hereby files the Rebuttal  
Testimony of Mr. John V. Wallace.

RESPECTFULLY SUBMITTED this 20<sup>th</sup> day of December, 2007.

By

John Wallace  
Grand Canyon State Electric Cooperative Assn. Inc.  
Consultant for Graham County Electric  
Cooperative, Inc.

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REBUTTAL

TESTIMONY

OF

JOHN V. WALLACE

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

December 20, 2007

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**I. INTRODUCTION AND SUMMARY OF TESTIMONY RECOMMENDATIONS**

Q. Please state your name address and occupation.

A. My name is John V. Wallace. I am the Director of Regulatory and Strategic Services of Grand Canyon State Electric Cooperative Association ("GCSECA"). I am filing testimony on behalf of Graham County Electric Cooperative, Inc. ("GCEC" or "Cooperative").

Q. Are you the same John V. Wallace that filed direct and supplemental testimony in this docket?

A. Yes. I am.

Q. Was this testimony prepared by you or under your direction?

A. Yes, it was.

Q. What areas does your rebuttal testimony address?

A. My testimony addresses the recommendations in direct and revised direct testimony of Staff witnesses Jerry D. Anderson, Gerald Becker, William H. Musgrove and Prem K. Bahl.

Q. Please summarize your rebuttal recommendations.

A. GCEC stipulates to the testimony of all four Staff witnesses and requests that the Commission adopt all of the recommendations in Staff's revised direct testimony. GCEC believes the Staff recommendations found in Mr. Anderson's revised direct testimony on the base cost of purchased power, purchased power adjustor issues, demand-side management and renewables programs cost recovery, qualified facility tariffs, rules and regulations, line extension tariff and hook-up fees should be adopted by the Commission. Graham also agrees to the Staff revenue requirement of \$15,968,075,

total operating expenses of \$13,988,235 and operating margins of \$1,979,840 which produces a Time Interest Earned Ratio ("TIER") of 2.00 and Debt Service Coverage Ratio ("DSC") of 2.38 as found in Mr. Becker's revised direct testimony on schedule GWB-2. Staff and Graham agree to a rate base amount of \$19,076,282 as found on direct schedules GWB-3 and my direct testimony schedule B-1. GCEC also agrees to the rate design recommendations as found in Mr. Musgrove's revised direct testimony as summarized on schedule WHM-1 and unbundled rate design as summarized on schedule WHM-3. Finally, GCEC agrees with Mr. Bahl's direct and revised direct testimony on cost of service.

**II. REVENUE REQUIREMENTS RECOMMENDATIONS**

Q. Staff is recommending a total revenue requirement of \$15,968,075 versus the GCEC recommended revenue requirement of \$15,618,875 for a difference of approximately \$350,000. Please comment on this difference.

A. The main reason for the \$350,000 difference is that Staff excludes non-operating revenue from its TIER and DCS calculations because non-operating margins can vary significantly from year to year. GCEC used a Net TIER calculation because this calculation has been used by its lenders and the Commission in the past but agrees to the Staff methodology for calculating the TIER and DSC.

Q. If the Staff revenue requirement of \$15,968,075 is approved, what effect will the additional \$350,000 have on GCEC's financial position?

A. GCEC in filing this case could have made adjustments to increase plant and several expenses such as salaries and benefits which increased by approximately 14 percent in 2007 and interest expense (GCEC has budgeted an increase in debt of \$3.5 million in 2008) because these expenses have increased significantly after the end of the Test Year. However, GCEC choose not to make such pro forma adjustments to eliminate any

1 controversy on such adjustments. GCEC will use this additional \$350,000 to offset these  
2 expense increases.

3  
4 **III. LINE EXTENSION AND HOOK-UP FEE TARIFF**

5  
6 Q. Does GCEC agree with Staff's recommendations on GCEC's proposed line extension  
7 and hook-up fee tariff?

8 A. GCEC agrees with the Staff recommendation to eliminate the free allowance of 100 feet  
9 for all new line extensions. GCEC agrees with the Staff and Commission policy to have  
10 new customers pay their share of the cost associated with a line extension as opposed to  
11 having all of the other members share in that cost through the free footage allowance.  
12 GCEC would further recommend that once it has provided an estimate to customers on  
13 the cost of a line extension, this estimate would be treated as the final cost with no true-  
14 up if the actual costs are higher or lower. This will eliminate the problems associated  
15 with trying to collect actual line extension costs from customers that are higher than what  
16 was originally estimated by GCEC. This will save GCEC a considerable amount of time  
17 and expense in the administration of its line extension policy by not having to true up the  
18 estimate with the actual cost at some future date. On average, there should not be a  
19 significant difference between estimates and actual costs because GCEC has refined and  
20 improved its line extension estimation procedures.

21  
22 Q. Staff has recommended that GCEC's proposed hook-up fee of \$1,000 be denied in this  
23 case. Please comment on this recommendation.

24 A. In order to eliminate all outstanding issues in this case, GCEC agrees with the Staff  
25 recommendation to eliminate its proposed \$1,000 hook-up fee in this case and reapply for  
26 a hook-up fee once the Staff investigation into hook-up fees in Docket No. E-00000K-07-  
27 0052 and Commission process is concluded.

1 Q. Has GCEC provided more hook-up fee cost information to Staff regarding since the filing  
2 of its direct testimony in this case?

3 A. Yes. GCEC has prepared and provided Staff with a limited analysis that shows the  
4 \$1,000 hook-up was a conservative estimate of the incremental cost of new main feeder  
5 lines and transformers needed to provide electric service to a new development. (Please  
6 refer to Rebuttal Testimony Exhibit entitled Hook-up Fee Analysis) GCEC has not  
7 performed a complete study to justify the total amount of incremental cost associated  
8 with a new customer/development connection. However, if GCEC had performed this  
9 complete analysis, it would have been able to justify a higher amount of hook-up fee as  
10 was the case in the recent Garkane Electric Cooperative hook-up fee application where  
11 the Commission approved a hook-up fee of approximately \$2,000.  
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13 Q. Does that conclude your rebuttal testimony?

14 A. Yes, it does.  
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**GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.  
HOOK-UP FEE ANALYSIS**

<u>DESCRIPTION</u>	<u>AMOUNT</u>	<u>CALCULATION</u>
136200-STATION EQUIPMENT-DISTRIBUTION	\$ 5,634,887.58	
TOTAL CUSTOMERS (Residential, Commercial, Irrigation):	8,847	As of 8/31/07
SUBSTATION COST PER EXISTING CUSTOMER	<u>\$ 636.93</u>	(\$5,634,887.58 / 8,847)
# OF SUBSTATION	7	
# OF CUSTOMERS PER SUBSTATION	1,264	(8,847 / 7)
COST OF NEW SUBSTATION	\$ 2,000,000.00	
NEW SUBSTATION COST PER CUSTOMER	<u>\$ 1,582.46</u>	(\$2,000,000 / 1,264)
INCREASE IN SUBSTATION COST PER CUSTOMER	<u>\$ 945.53</u>	(\$1,582.46 - \$636.93)
COST TO UPGRADE MAIN FEEDER LINES	\$ 237,000.00	
EST. # OF CUSTOMERS SERVED BY UPGRADED LINE	400	
UPGRADED MAIN FEEDER LINE COST PER CUST	<u>\$ 592.50</u>	(\$237,000 / 400)
INCREASED COST IN SUBSTATION & UPGRADED FEEDER LINES PER CUST.	<u><u>\$ 1,538.03</u></u>	(\$945.53 + \$592.50)